

TESTIMONY OF THE
THE AMERICAN SOCIETY OF TRAVEL AGENTS, INC.
Before the
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

Presented by:

Paul M. Ruden, Esq., CTC
Senior Vice President – Legal &
Industry Affairs
American Society of Travel Agents, Inc.
1101 King Street
Alexandria, VA 22314
(703) 739-2782
E-mail: paulr@astahq.com

September 25, 2001

Testimony of the American Society of Travel Agents

Federal Aid for Travel Agencies

The American Society of Travel Agents (“ASTA”) offers this testimony on the Committee’s continuing deliberations with respect to the impact of the September 11 terrorist attacks on the travel industry. Our testimony may differ somewhat from that of the airlines that testified before us in that we are concerned here not only with the airlines, but also with the directly related industries that are either an essential part of the airlines’ ability to perform or are directly dependent upon their ability to perform.

When the airlines testified, their basic message seemed to be: take care of our needs and everyone else will then be better off too because we’ll be able to continue flying. No doubt that is true: everyone will benefit if the airline industry keeps operating.

But it is far from the whole truth. In reality many people will not be better off even if the airlines continue to fly. Their businesses and careers in the travel business will have been destroyed – completely and definitively – and for the same reasons that brought the airlines before you and for the same reasons that the Congress, before hearing from anyone else, approved a \$15 billion aid package for the airlines. These are the businesses and careers of people who had nothing to do with airline security or government surveillance of suspected terrorists. They are, typically, very small, family-owned businesses who arrange most of the air travel bought by Americans and also almost all the packaged tours and cruises, along with sizeable shares of the hotel rooms and car rentals sold in the United States.

They are firms who have been brutalized by the airlines over the past five years through a succession of compensation reductions that have reduced the average domestic commission rate from 10 percent in early 1995 to 3.75 percent in August, 2001.¹ The revenue results of this are depicted in Exhibit A to this testimony.

These actions have forced travel agents to shift costs to their customers in the form of service fees in order to maintain the air travel product line in their business. Other agencies simply stopped selling airline tickets, and still others, as would be expected, either failed or simply exited the industry for good.

¹ These actions were accompanied by other steps designed to increase agency costs and impair agencies’ ability to maintain customer relationships, much of which was described in a 1999 complaint to the Department of Transportation, as yet not acted upon.

The travel agency industry has shrunk from 23,937 firms in 1994 (the peak) to 18,334 firms at the end of August, 2001 (decline of 23 percent).² See Exhibit B to this testimony. The air travel business done by travel agencies, including the hybrid Internet-based firms, has, however, increased from \$53 billion the year before the first commission cap to more than \$76 billion in the year 2000. See Exhibit C to this testimony. Air travel still represents 54 percent of the travel agency product mix and agencies still account for about 75 percent of the air travel sold in the United States.

The aggregate savings to the airlines in avoided commission expense for the entire period is in the tens of billions. Conversely, the impact on travel agencies was to weaken them as they struggled to make up for the lost commission revenue by shifting product mix to emphasize more profitable lines of business like cruises and tours. The move to cruise selling was recently met by a cruise industry reduction in commissions paid on the air portion of air-sea packages. And the recession of 2001 further cut into business travel, reducing still further the financial benefits of selling airline tickets and further impairing the financial condition of many travel agencies.

In addition, travel agencies that continue to sell air transportation must use a computerized reservations system to locate and book most seats. Most of the four remaining CRS systems are still substantially owned by airlines. Because their airline owners used them unfairly to prejudice the purchase of air travel in favor of the owners, the federal government regulates the CRS's and to some extent the airlines that own or participate in them. The contracts that CRS's impose on travel agencies typically require the agency to pay penalties if the number of segments booked falls below specified productivity thresholds.

The thresholds have several consequences. Travel agencies may harm their business if they attempt to book lower, and typically non-commissionable, fares from Internet web sites because they don't get CRS segment credits for such bookings. In recession, which we were having prior to September 11, agencies are harmed by both loss of business and loss of segment bookings. In the post-attack situation faced by agents, they must seek relief, the grant of which is entirely discretionary with the CRS's, from the segment thresholds.

Despite a formal request from ASTA, thus far only two CRS's have announced relief measures, one through the end of the year and the other only for September.

The point of all this is that the travel agency industry was, just like the airlines, already struggling with a severe financial problem when the attacks of September 11 brought a virtual halt to the sale of travel in all forms. They are caught between the hammer and the anvil: no new business, commissions recalled on previously sold business that was

² As reported by the Airlines Reporting Corporation.

not performed or is being cancelled, and penalties for failing to make CRS booking thresholds.

Travel agents and at-home retailers of travel services number about 300,000. We estimate job losses in the 100,000 range if immediate action is not taken to help them. Travel agencies typically do not have meaningful cash reserves nor do they own assets that could be made available as collateral for regular bank loans. Having been completely ignored by the airlines, they have nowhere to turn but the federal government.

We are not here just because travel agencies are being destroyed. We are well aware of the breadth and depth of the economic damage that the September 11 attacks have imposed on our economy and that there are other claimants to federal relief with powerful equities to cite. We well understand the central role that airlines play in our country's economy and can understand that federal relief was necessary to sustain the industry until government leadership returns to the traveling public its sense of confidence in the security of air travel. From the beginning ASTA supported a rational and equitable relief package that will help deliver a rapid return to full operations by the airline industry.

The term "airline industry" is, however, something of a fiction. That which we call the airline industry is in truth an economically integrated collection of related but independent businesses with highly specialized skills, experience and expertise.

One of the most important of those essential components is the travel agency. Travel agencies are important not only because they dominate the statistics. That fact points to a deeper truth: the traveling public continues to demand the services of travel agencies in preference to other modes of purchasing.

This is not an accident and not a result of lack of choices. The public uses travel agencies because the agencies provide what the public needs in the way of information, counseling and transaction services for air travel, and, of course, for other forms of travel as well.

At ASTA we say "without a travel agent, you're on your own" and the American public agrees.

During the terrible days immediately following the September 11 attacks, America's travel agencies were again there for their clients. And they were there for others in need as well. Across the country, travel agents were in their offices trying to help the many thousands of people stranded by the nationwide airport closure. Many of them

provided free assistance to people who had bought their tickets on the Internet and had no one else to contact for help.

Travel agents performed these services because they were the only people who could. At the same time they watched their businesses collapse. ASTA has many reports of agencies whose gross earnings for the week including September 11 were less than \$50. This is normally the peak season for holiday bookings. That business is at a standstill. Even large group bookings made for travel months in the future are being cancelled. The details of a small sample of these stories are set out in Exhibit A to this testimony.

It is a fact that in this unprecedented situation there was no substitute for the travel agent for tens of thousands of people who needed help. It is a fact that the nation's travel agencies face the same unprecedented financial crisis that the airlines face and are as deserving and needful as the airlines of assistance from the federal government.

Finally, it is a fact that without travel agencies, the nation's travel industry, airlines included, simply cannot function. The airlines and their web sites cannot handle the volume of calls to assist consumers with the myriad of services that professional travel agents have provided and that account for the public's continuing preference for agencies. In the current situation, in particular, the services of professional agents with expertise in travel option analysis are going to be crucial to bringing the public back to the airways. Consumers are going to want and need people to talk to, preferably people they know but at least a human being with real knowledge of the system, the new rules and the requirements for achieving safe and expeditious travel. The only people available to fulfill that function are travel agencies. Recovery will remain an illusory myth for a very long time to come if travel agencies are not there to connect and serve the customer and the airline.

Some of the dimensions of the financial problem facing travel agencies are:

Between September 11 and September 17, 2001, agencies lost an estimated \$364 million due to the virtually total cessation of new sales and the recall by airlines of \$73 million in air commissions on pre-September 11 sales for which transportation could not be provided.

Agencies are losing about \$26 million in airline sales-related revenue per day (\$16 million in lost commissions, \$10 million in lost fees per day)

Agencies lose about \$25 million per day in revenue from hotel sales (\$6.3 million), car rentals (\$4.3 million), cruises (\$10.2 million), tours, rail and other miscellaneous sales (\$4.6 million).

For the four weeks following the attacks, we estimate total losses for all product lines at \$1.36 billion.

Estimate loss of air commissions alone through the end of the year 2001 estimated at \$800 million.

For the period through the end of 2002, estimated total loss for all product lines will exceed \$4 billion.

Detailed projections of the effects for the balance of 2001 and for 2002 are set out in Exhibit D to this testimony.

The travel agency industry differs fundamentally in structure from that of the airlines. While there are some large firms in our industry, the overwhelming size of these businesses is "very small." In the 28,939 retail agency locations in the United States at the end of August, the average number of agency employees was six, with a median of five. Eighty-two percent are women. Just under 55% of ASTA's agency members have annual gross sales of \$2 million or less.

In normal times, these small businesses handle an enormous volume of air travel. Through July of this year travel agencies sold \$47 billion in airline tickets, averaging \$297 million per day. Travel agencies have processed over 113 million airline sales transactions so far this year.

This business has shrunk to almost nothing since September 11. See Exhibit A. The impact on air sales passes directly through to affect the remaining 46 percent of travel agencies' product lines. Without air transportation the sale of cruises, which operate on a sustainable basis out of 13 ports in the United States, becomes almost impossible, even if the demand is there (and it is not). Hotel occupancy and car rentals are also directly and hugely dependent upon the delivery of passengers by air transportation. The tour industry uses buses for moving large numbers of travelers around, but many of them must get to the departure points using air travel. If air travel doesn't happen, these other sales don't happen either.

It is imperative that Congress provide travel agencies with financial relief comparable in nature to that given to the airlines. Given the magnitude of the short term losses and the uncertainty of near-term recovery, we seek \$4 billion in grants and no-interest loans

to be made available to travel agencies. These funds will help assure that irreplaceable travel agency services will not be cut off to the public when they need them the most.

Further Limitations on Aid for Airlines

In addition, ASTA submits that the relief granted to the airlines, while it may be justified to save these particular businesses from cash flow problems not otherwise manageable, should be further conditioned to protect the rest of the industry and the traveling public from misapplication of the relief funds. ASTA has five proposals in this regard:³

1. No further reductions in travel agent compensation should be permitted while airlines are beneficiaries of a federal aid package, including no recall of commissions on business cancelled following 9/11/01 attack.

Exhibits A, B & C to this testimony illustrate the history and effect of airline commission cuts on travel agency commission income since 1995. Currently domestic base commissions are 5 percent of the fare, but capped at \$10 per one way ticket; international base commissions are 5 percent capped at \$50 per one way ticket. It would be unconscionable if the airlines, having succeeded here in their plea for emergency federal relief, were to be allowed to use their market power to take still more money from travel agencies while receiving federal aid. Equally, we believe that the airlines should not be allowed to recall the commissions earned by agents on the pre-September 11 sale of air travel for post-September 11 delivery. The work was done and travel agents are not responsible for the non-delivery of service.

2. Federal aid should be strictly limited to use for airline operations and customer service and not for marketing or non-operations joint venture activities, with detailed reporting to assure accountability.

Prior to the September 11 attacks, the airlines were engaged in a number of joint ventures, including a joint website called "Orbitz." ASTA does not believe that federal

³ ASTA also has two conditions to propose in the event the Congress further considers requests from the airlines for relief from the antitrust laws to discuss mutual flight reductions or other matters of this nature related to the attacks. In short, these are that ASTA and other relevant parties be permitted to observe any immunized airline discussions and that any industry segment adversely affected by actions taken under the airlines' immunity be granted similar immunity to respond collectively to such actions.

monies, or antitrust immunity for that matter, should be used to shore up, capitalize or otherwise sustain Orbitz or other joint activities of a similar nature. The federal assistance should be used to save the airlines from the liquidity crisis their flight operations face and to help them take care of their customers. The funds should not be used for joint marketing initiatives that disadvantage other segments of the marketplace.

3. All public fares should be available for sale through all distribution channels.

The extraordinary relief sought by the airlines warrants additional forms of assistance to not only travel retailers but to consumers as well. It is reasonable to anticipate that fares changes will be even more frequent and chaotic than they normally are, as airlines struggle to manage yields, encourage travel and limit losses. The airlines' prior attempts to reserve special fares for their own web sites or for favored distributors such as Orbitz should be suspended, so that consumers have access to all publicly available fares and can decide where they are most comfortable buying them rather than being forced to get them from places chosen by the airlines. This is not the time for the airlines to be engaged in marketing ploys to change the competitive structure of the industry.

4. Change preemption law to permit consumer and small business access to state laws to resolve disputes with airlines.

The Committee is likely familiar with the problems created by the preemption provisions of the Airline Deregulation Act of 1978. ASTA has testified about this subject a number of times, most recently in connection with our efforts to persuade the Congress to enact passenger rights legislation. Clarification of the preemption language, as provided for in HR 1734, is long overdue. The Congress should take this opportunity to return to all consumers and others doing business with airlines their state law rights, subject, of course, to the limitations imposed by the Air Transportation Safety and System Stabilization Act just enacted.

5. Provide passengers with timely and accurate reasons for delay, cancellations or diversion of flights.

This is one of the core elements of the passenger rights legislation that ASTA has been urging on the Congress for years now. In the confusion that will surround the resumption of air travel in the face of new and perhaps changing security requirements, new reasons for flight delays, cancellations and diversions may occur. We believe the traveling public is entitled to be told the truth about such events. Prior to September 11, this problem is the most frequently cited failure of airlines in their treatment of

consumers and nothing promised by them in their voluntary customer service plans really addresses the issue. The Congress should, therefore, take this opportunity to resolve the matter. Again, the language for this is set out in HR 1734.

Security

ASTA has previously advised the Congress that we believe the task of securing access to aircraft should be placed in the hands of the Secret Service.

Airlines should not, in our view, be asked to conduct two businesses that are, in some senses, in conflict with each other. Airlines are very good at producing safe air transportation. They should stick to that business. The security job should be handled by interests independent of airline economic and operational needs and should be paid for by everyone. If, as virtually everyone now seems to agree, the airlines are a public utility – a service necessary for the economic welfare of the entire country – then the task of assuring that the service continues and flourishes, as regards public safety, should be in the hands of experts in safety and the costs shared by everyone who benefits from the service directly or indirectly.

Finally, we want to address briefly the subject of the national recovery from the September 11 attacks. There is substantial consensus that potential travelers are still unsure whether it is safe to travel and experts' predictions for the end of that state of insecurity are grim. We have explained why we believe that federal assistance to travel agencies will assist the recovery and why allowing widespread failure of agencies will prolong the recovery. But beyond that, there is another fundamental point that is not apparently being made.

The government continues to release reports on a daily basis about the continuing presence of terrorists in our midst and about the evidence being collected about not only the September 11 attacks but about other unfulfilled threats. No doubt the people's "right to know" is involved here, but we respectfully suggest that the release of this kind of information by the federal investigation of terrorism is doing nothing meaningful to bring terrorists to justice but is contributing materially to the public's sense that it is still not safe to travel. The fundamental goal of restoring air travel, and thereby stimulating the economy as a whole, cannot be accomplished until the government makes up its collective mind that the details of the investigation, however, interesting, should be maintained confidentially until it is essential to make them public.

All the travel industry's efforts to encourage the public to travel may go for nothing if counteracted on a daily basis by non-essential government disclosures having the opposite effect.

Finally, ASTA believes the government should lead the way with public service announcements about travel safety. ASTA is ready to work with the government, as well as other industry interests, to get that positive campaign underway.

ASTA appreciates the opportunity to have presented its views, and remains at the Committee's disposal to assist in any way it can.

Respectfully submitted.

Paul M. Ruden, Esquire
Senior Vice President – Legal & Industry
Affairs
American Society of Travel Agents, Inc.
1101 King Street
Alexandria, Virginia 22314
(703) 739-6854
E-mail: paulr@astahq.com

**TRAVEL AGENCIES IMPACTED BY AFTERMATH OF
TERRORIST ATTACKS**

(Excerpts of messages from travel agencies)

AGENCY spent most of last week servicing clients who needed travel rearrangements. Our net air income for the week was \$38.97. We have 5 front line agents and a small supporting staff. Our clients seem to appreciate all the work we are doing for them.

AGENCY ... employs three full time agents. Last week my net income from air sales were \$32.21....we have written one air ticket since Monday.... a ground operator for incentive groups ... yesterday, they had all of their fall groups cancel....Another ground operator here ... has had 9 incentive groups cancel

AGENCY had a net revenue stream of \$154 last week in an office of 4 full time people. Monday, September 17 we sold one airline ticket and no sales to Europe (our primary destination). Normally we receive 20 to 30 leads for European travel over the weekend ... this week we have 2 leads. On Monday we also cancelled 6 passengers on escorted tours to China - representing more than \$5000 in lost commission income for October. AGENCY will be laying off at least two people at the end of this week.

Normal ARC week 100,000, last week less than 7,000 or gross income of 600. Lost in excess of 50,000 in tours prepaid and ready to go. Have waived fees for reaccommodations of people stranded. 12 full time people with 1 part time person. I figure it cost me about 9,000 loss to operate last week.

Out of last weeks business, over 60% of what we did transaction wise was refunds. 75% of the call volume were from stranded passengers or calls from the emergency bank. We are taking calls daily from people who are [squeamish] about traveling. This is having a significant impact on our agency and if things do not change within 30-45 days, we will need to reduce hours and layoff agents to help us get through. This normally is our booking season for fall break and the holidays and as all agencies December traditionally is our slowest month.

AGENCY fared better than we did - we gave back more than we made resulting in a negative of \$90.49!

Arc Report Ending Sep 16, 2001 26 Sales and 17 Refunds; in Addition \$9000.00 Paid in Full on a Tour on Monday, Canceled on Tuesday. Several Other Trips Cancelled for Travel in October and Even for Christmas. Unfortunately the Phone Isn't Ringing for New Business to Compensate for the Cancellations.

AGENCY spent most of last week and the first part of this week assisting clients who could not get through to the airlines. Since September 11, 2001 we have processed \$31,098.32 worth of air refunds and \$19,889.00 in tour and cruise cancellation refunds. Since a large portion of the tour bookings were for inbound tourism, our commission income losses are approximately \$13,400.00 for last week alone. We see very little confidence with consumers in our area, as we are having people cancel their travel plans for December, January and February. We are trying to change their minds, but everyone seems to be too depressed to think about travel right now.

AGENCY's agents spent 98% of their time last week servicing clients affected by this incident. We charge a processing fee for refunds and decided not to make an exception in this case. The only income we had last week was due to our processing fees, which totaled \$1398.00. Any other commission income was negated by commission given back on refunds. Bottom line is that we lost money last week. That was not enough money to support 1 part-time and 4 full-time agents. This week will be even worse. There's very little income being generated and we will lose a lot of income due to the many tours that people have cancelled.

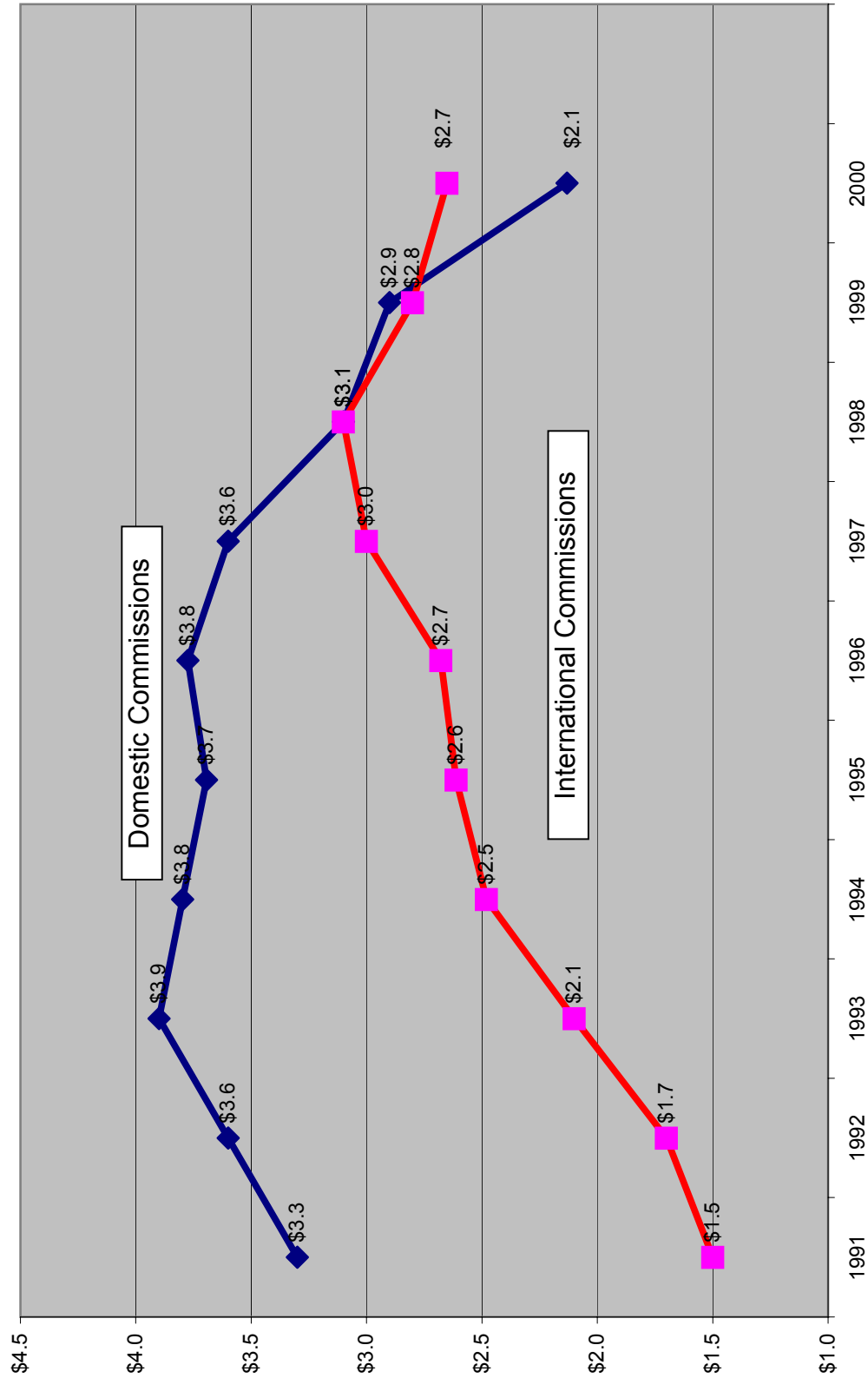
Our agency has reduced all employees to ½ their regular hours (3 full time & 2 part employees). Owners will work without pay. Bill must be paid & there is no income.... Cancelled trips this week alone amount to over \$50,000.

If I have to close my businesses 8 people ... will lose their jobs and the service we have provided to over 10,000 local residents and businesses over the last six years will cease.

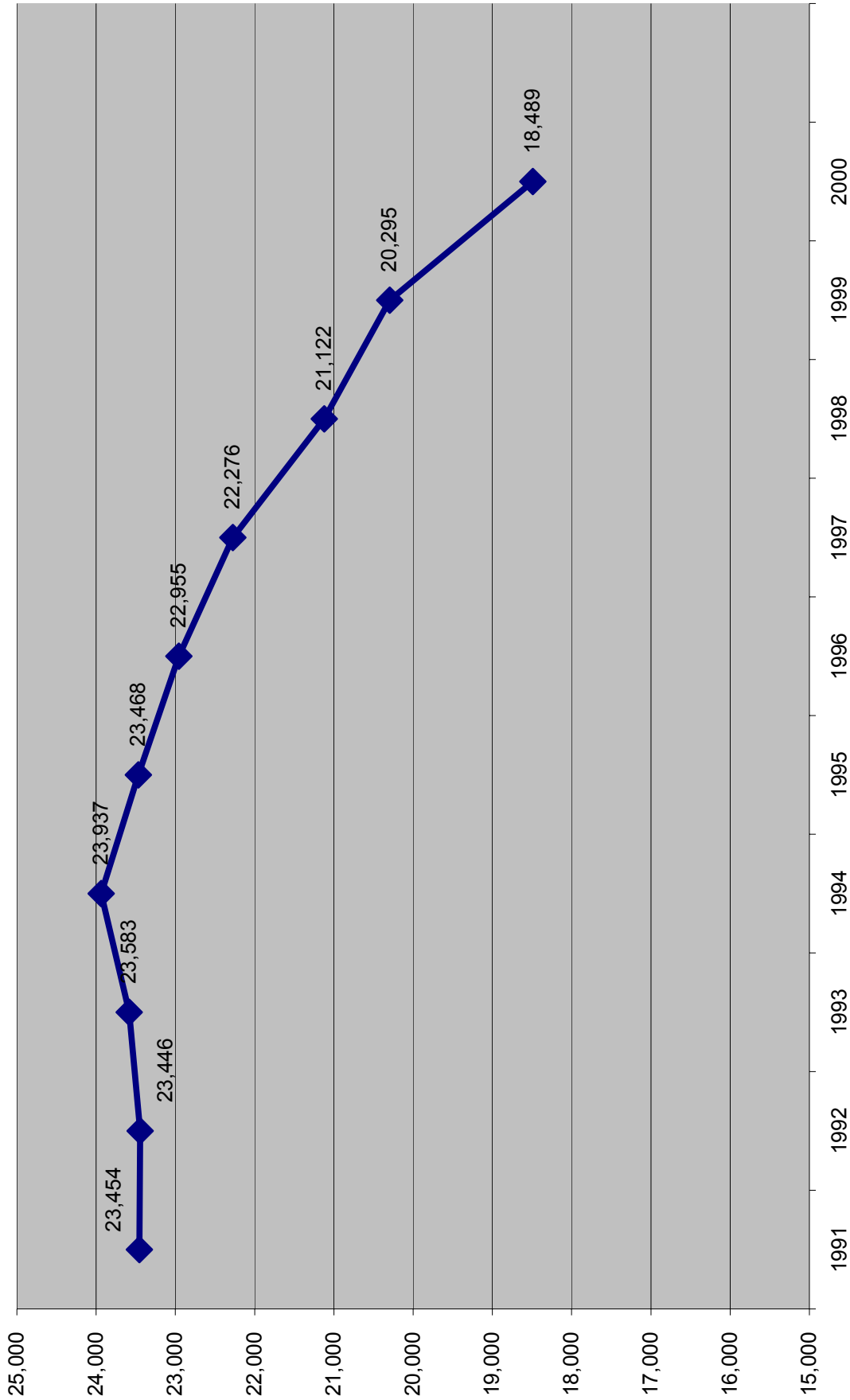
AGENCY is a family operated agency Air sales for the past week were down over 60 percent. Air cancellations equaled sales leaving us with air sales almost equal to zero. Leisure bookings have come to a virtual halt with \$15,000 in cancellations for packages under deposit. All calls this morning have centered about cancelling ticketed air and cancelling leisure travel scheduled to depart in the next few weeks. Total income for this office since September 11 has been negative. All activity has centered about getting clients home, rescheduling, and cancelling. No sales for future

Since the Sept. 11, we have sold only 2 airline tickets. No tours and no cruises ...

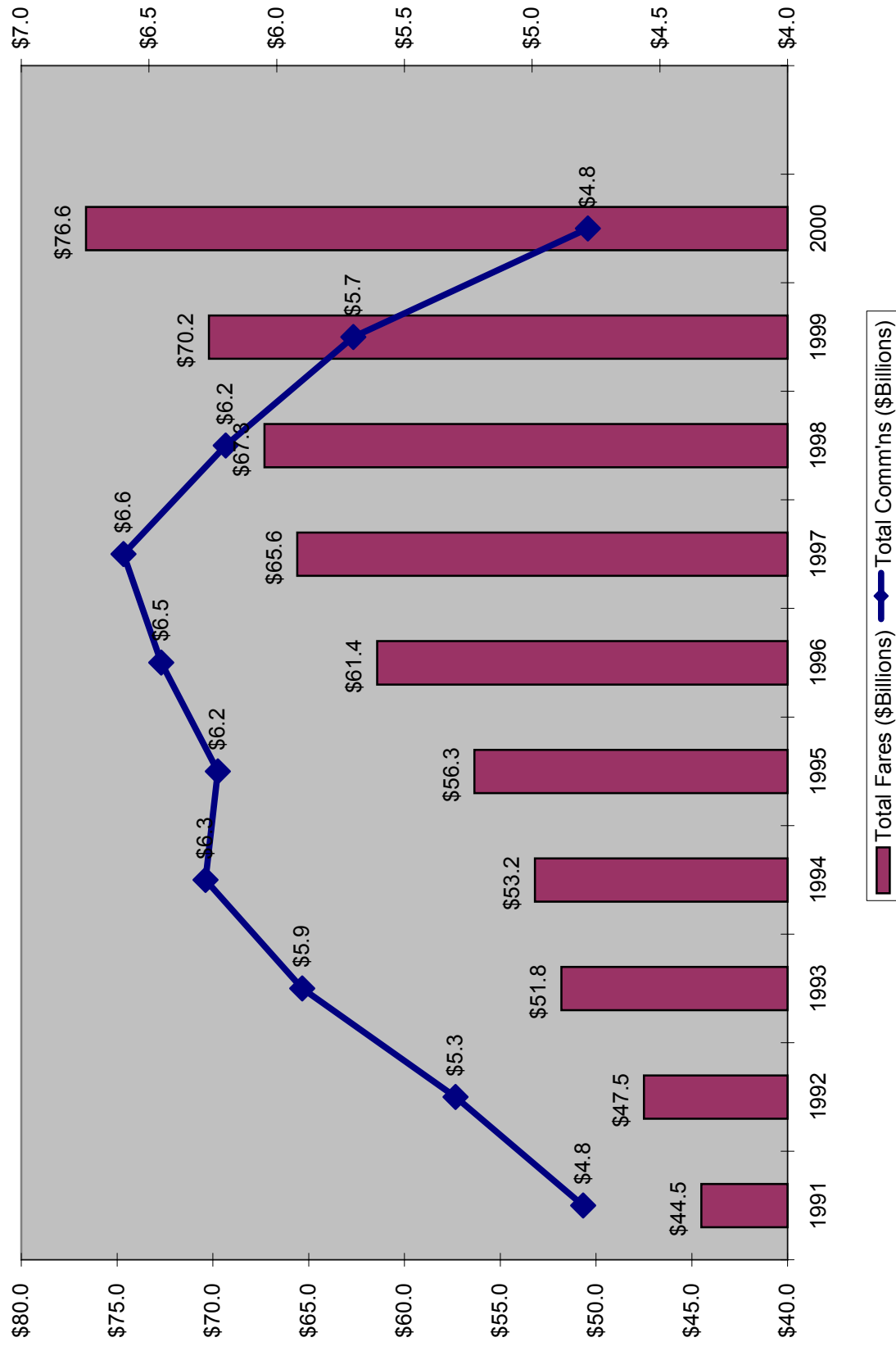
International vs. Domestic Commissions



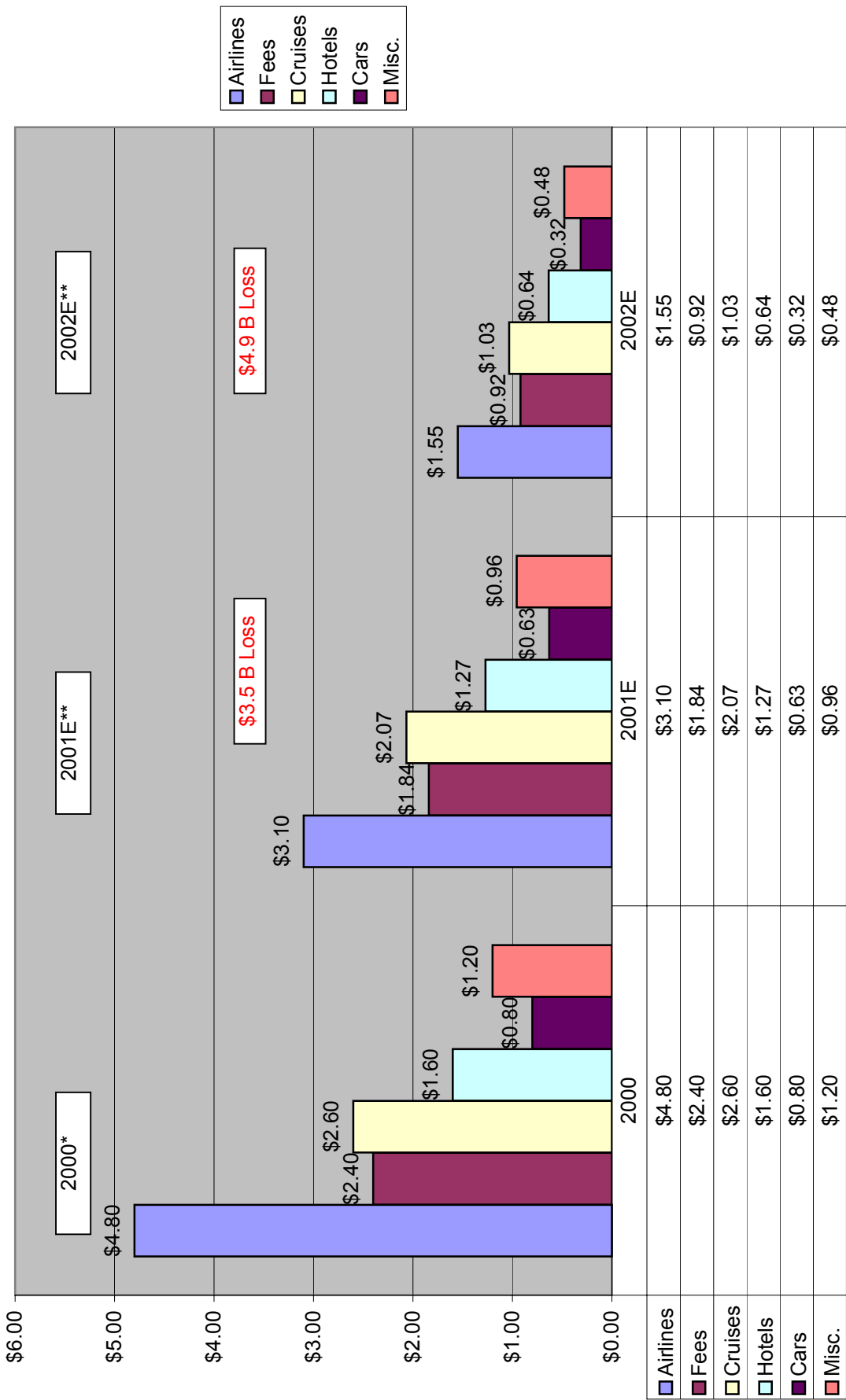
Total Agency Firms



Commissions Vs. Fares

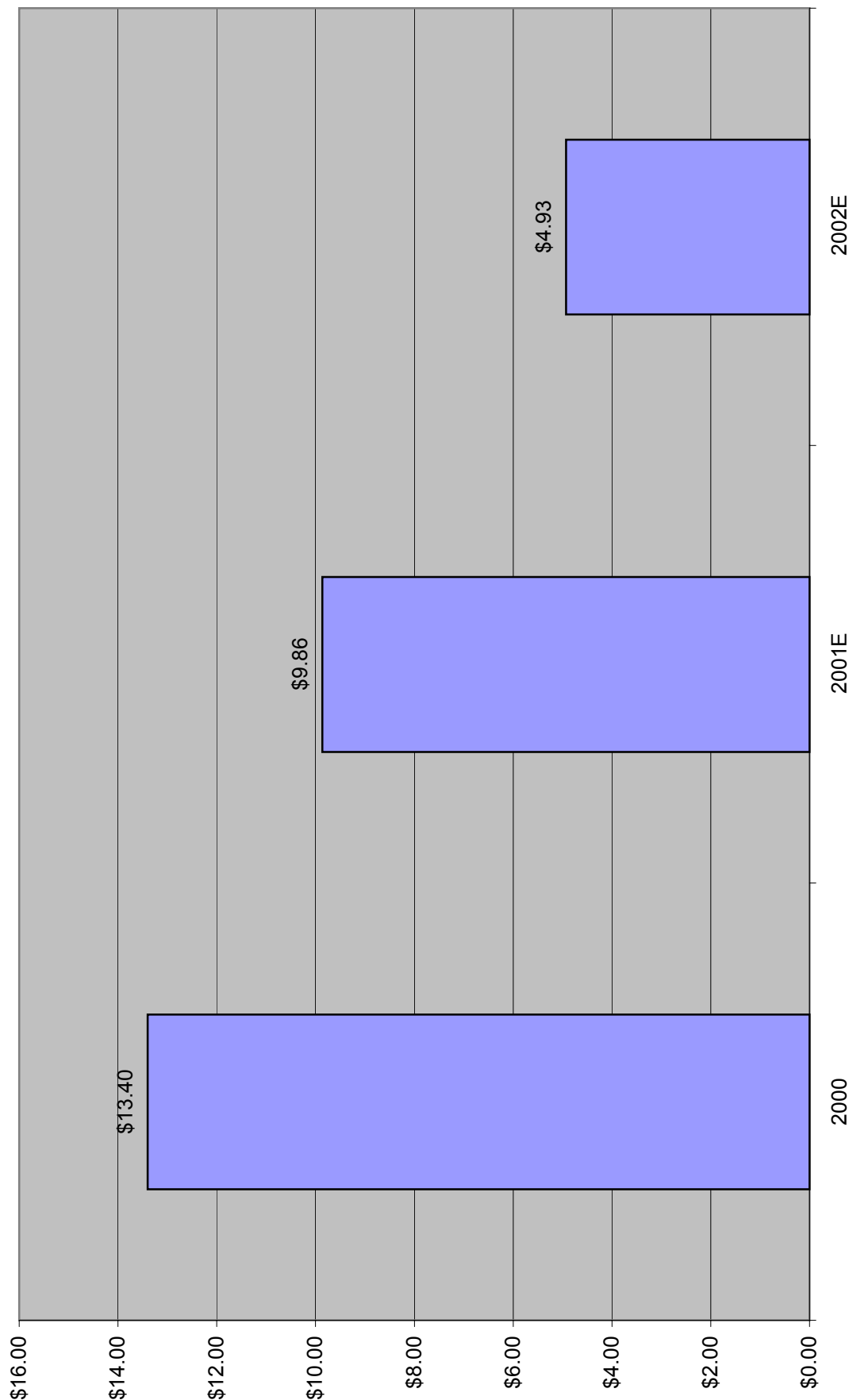


Travel Agency Industry Revenue Projections (\$Billions)



*All air data based on ARC statistics. All other data based on 2000 Travel Agency Survey, Travel Weekly and ASTA's Service Fee Survey.
** Loss based on 2000 revenue streams compared to estimated revenues.

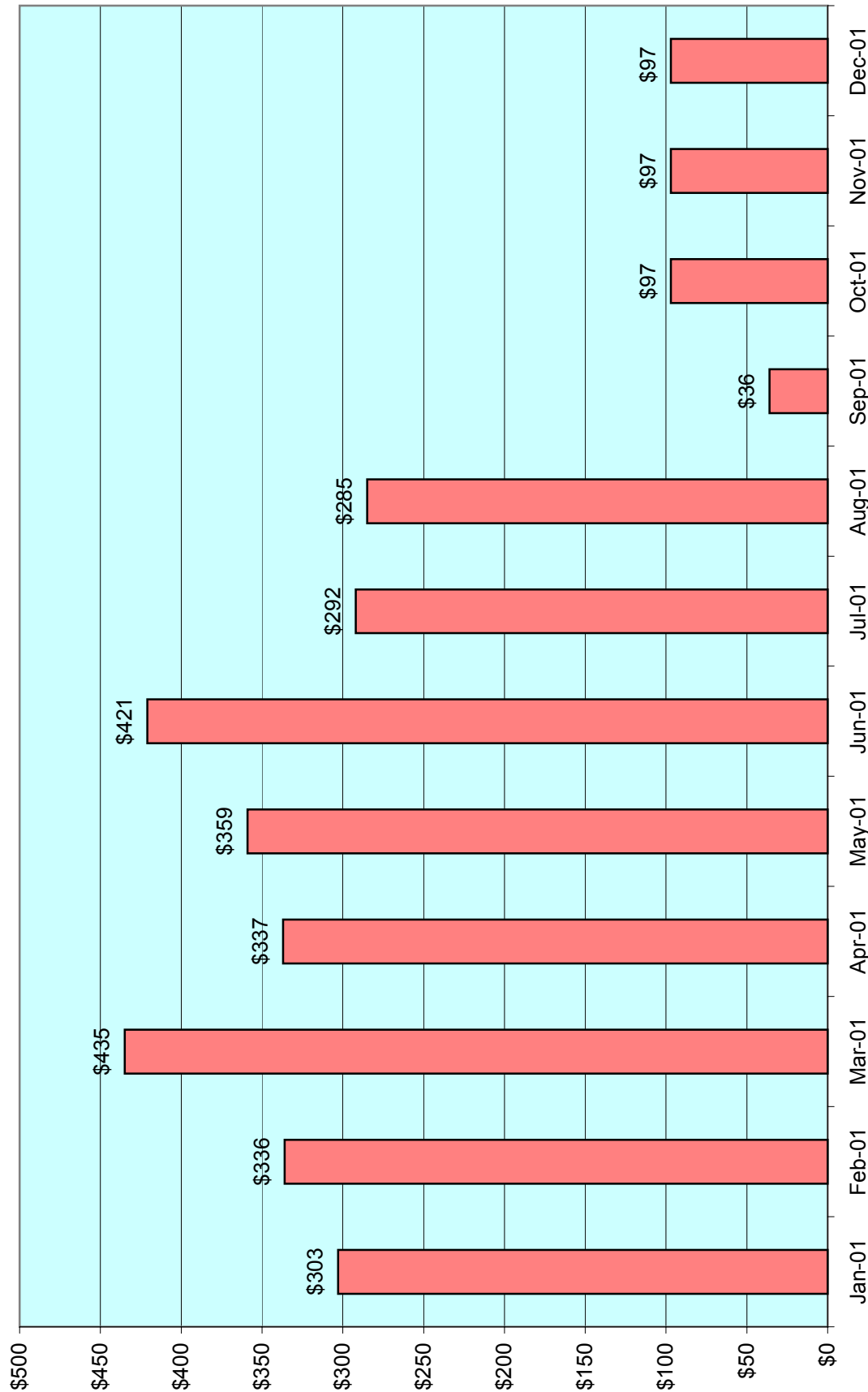
Travel Agent Revenue Projections 2000 - 2002 (\$Billions)



Travel Agent Net Revenue (\$Billions)

	2000	2001E	2002E
Airlines	\$4.80	\$3.10	\$1.55
Fees	\$2.40	\$1.84	\$0.92
Cruises	\$2.60	\$2.07	\$1.03
Hotels	\$1.60	\$1.27	\$0.64
Cars	\$0.80	\$0.63	\$0.32
Misc.	\$1.20	\$0.96	\$0.48
	\$13.40	\$9.86	\$4.93

Monthly Agency Air Commissions 2001 (\$Millions)



Based on Montly Statistics From the Airlines Reporting Corporation (ARC).

Travel Agency Air Commissions 1997 - 2001E

